

**SOUTHWEST KANSAS LIBRARY SYSTEM  
DODGE CITY, KANSAS**

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**FINANCIAL STATEMENTS  
with  
INDEPENDENT AUDITOR'S REPORT  
YEAR ENDED DECEMBER 31, 2011**

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**INDEPENDENT AUDITOR'S REPORT**

Southwest Kansas Library System  
Dodge City, Kansas

We have audited the accompanying financial statements of the Southwest Kansas Library System, as of and for the year ended December 31, 2011, which collectively comprise the basic financial statements of the System, as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit Guide*. Those standards and guidance require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note A, the Southwest Kansas Library System has prepared these financial statements using the accounting practices prescribed or permitted by the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, is presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Southwest Kansas Library System as of December 31, 2011, or the changes in its financial position for the year then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the Southwest Kansas Library System, as of December 31, 2011, and their respective cash receipts and expenditures, and budgetary results, for the year then ended on the basis of accounting described in Note A.

*Kennedy McKee & Company LLP*

December 28, 2012

**SOUTHWEST KANSAS LIBRARY SYSTEM  
DODGE CITY, KANSAS**

**SUMMARY OF CASH RECEIPTS, EXPENDITURES  
AND UNENCUMBERED CASH**

Year ended December 31, 2011

<u>Fund</u>	<u>Beginning unencumbered cash balance</u>	<u>Prior year canceled encumbrances</u>
Governmental funds:		
General funds:		
General	\$ 445,975	\$ -
Special revenue funds:		
Employee benefits	22,915	-
State aid	-	-
Children service grant	31,597	-
Courier grant	180,000	-
Blind and physically handicapped	793	-
	<hr/>	<hr/>
Total	<u>\$ 681,280</u>	<u>\$ -</u>
Composition of cash balance:		
Checking account		
Money market account		
Certificates of deposit		
Total		

The accompanying notes are an integral  
part of the financial statements.

<u>Cash receipts</u>	<u>Expenditures</u>	<u>Ending unencumbered cash balance</u>	<u>Add outstanding encumbrances and accounts payable</u>	<u>Ending cash balance</u>
\$ 673,908	\$ 681,239	\$ 438,644	3,667	\$ 442,311
85,249	89,327	18,837	-	18,837
83,120	83,120	-	-	-
-	31,485	112	-	112
-	180,000	-	-	-
<u>28,086</u>	<u>650</u>	<u>28,229</u>	<u>-</u>	<u>28,229</u>
<u>\$ 870,363</u>	<u>\$ 1,065,821</u>	<u>\$ 485,822</u>	<u>\$ 3,667</u>	<u>\$ 489,489</u>
				\$ 82,937
				173,476
				<u>233,076</u>
				<u>\$ 489,489</u>

**SOUTHWEST KANSAS LIBRARY SYSTEM  
DODGE CITY, KANSAS**

**SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET**

Year ended December 31, 2011

<u>Fund</u>	<u>Certified budget</u>	<u>Adjustment to comply with legal maximum budget</u>	<u>Total budget for comparison</u>	<u>Expenditures chargeable to current year</u>	<u>Variance favorable (unfavorable)</u>
Governmental funds:					
General fund:					
General	\$ 1,005,081	\$ -	\$ 1,005,081	\$ 681,239	\$ 323,842
Special revenue fund:					
Employee benefits	<u>95,315</u>	<u>-</u>	<u>95,315</u>	<u>89,327</u>	<u>5,988</u>
	<u>\$ 1,100,396</u>	<u>\$ -</u>	<u>\$ 1,100,396</u>	<u>\$ 770,566</u>	<u>\$ 329,830</u>

The accompanying notes are an integral  
part of the financial statements.

**SOUTHWEST KANSAS LIBRARY SYSTEM  
DODGE CITY, KANSAS**

**GENERAL FUND**

**STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET**

Year ended December 31, 2011

	<u>Actual</u>	<u>Budget</u>	Variance favorable (unfavorable)
Cash receipts:			
Taxes:			
Ad valorem property tax	\$ 418,591	\$ 428,387	\$ (9,796)
Delinquent tax	2,957	-	2,957
Motor vehicle tax	14,281	12,826	1,455
Recreational vehicle tax	193	231	(38)
16/20M truck tax	1,124	1,916	(792)
Other taxes	11,865	-	11,865
Charges for services	209,568	207,153	2,415
Grants	10,000	-	10,000
Interest	5,329	2,000	3,329
	<u>673,908</u>	<u>\$ 652,513</u>	<u>\$ 21,395</u>
Total cash receipts			
Expenditures:			
Consulting services	10,114	\$ 36,613	\$ 26,499
Continuing education and training	11,161	-	(11,161)
Grant expense	190,534	193,900	3,366
Interlibrary loan service	22,051	-	(22,051)
Rotating service	15,306	-	(15,306)
Facilities	27,707	29,844	2,137
Postage and delivery	1,706	-	(1,706)
Telecommunications	2,818	-	(2,818)
Payroll expense	345,649	354,841	9,192
Equipment replacement and repair	15,150	7,570	(7,580)
Management	25,119	27,780	2,661
Supplies	9,029	314,533	305,504
Staff development	4,895	-	(4,895)
State wide initiatives	-	40,000	40,000
	<u>681,239</u>	<u>\$ 1,005,081</u>	<u>\$ 323,842</u>
Total expenditures			
Receipts over (under) expenditures	(7,331)		
Unencumbered cash, beginning of year	445,975	\$ 352,568	\$ 93,407
	<u>\$ 438,644</u>		
Unencumbered cash, end of year			

The accompanying notes are an integral part of the financial statements.

**SOUTHWEST KANSAS LIBRARY SYSTEM  
DODGE CITY, KANSAS**

**EMPLOYEE BENEFITS FUND**

**STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET**

Year ended December 31, 2011

	<u>Actual</u>	<u>Budget</u>	<u>Variance favorable (unfavorable)</u>
Cash receipts:			
Taxes:			
Ad valorem property tax	\$ 79,295	\$ 80,753	\$ (1,458)
Delinquent tax	542	-	542
Motor vehicle tax	2,814	2,694	120
Recreational vehicle tax	35	48	(13)
16/20M tax	180	402	(222)
Other taxes	2,144	-	2,144
Interest	<u>239</u>	<u>100</u>	<u>139</u>
Total cash receipts	85,249	<u><u>\$ 83,997</u></u>	<u><u>\$ 1,252</u></u>
Expenditures:			
Payroll expense	<u>89,327</u>	<u><u>\$ 95,315</u></u>	<u><u>\$ 5,988</u></u>
Receipts over (under) expenditures	(4,078)		
Unencumbered cash, beginning of year	<u>22,915</u>	<u><u>\$ 11,318</u></u>	<u><u>\$ 11,597</u></u>
Unencumbered cash, end of year	<u><u>\$ 18,837</u></u>		

The accompanying notes are an integral  
part of the financial statements.



**SOUTHWEST KANSAS LIBRARY SYSTEM  
DODGE CITY, KANSAS**

**STATEMENT OF CASH RECEIPTS AND EXPENDITURES  
ALL NON-BUDGETED SPECIAL REVENUE FUNDS**

Year ended December 31, 2011

	<u>State aid</u>	<u>Children service grant</u>	<u>Courier grant</u>	<u>Blind and physically handicapped</u>	<u>Total</u>
Cash receipts:					
State aid	\$ 83,120	\$ -	\$ -	\$ -	\$ 83,120
Grants	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,086</u>	<u>28,086</u>
Total cash receipts	<u>83,120</u>	<u>-</u>	<u>-</u>	<u>28,086</u>	<u>111,206</u>
Expenditures:					
Consulting services	53,433	-	-	-	53,433
Continuing education and training	992	-	-	-	992
Grant expense	-	31,485	180,000	650	212,135
Interlibrary loan service	12,660	-	-	-	12,660
Rotating service	13,010	-	-	-	13,010
Management	2,830	-	-	-	2,830
Supplies	<u>195</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>195</u>
Total expenditures	<u>83,120</u>	<u>31,485</u>	<u>180,000</u>	<u>650</u>	<u>295,255</u>
Receipts over (under) expenditures	-	(31,485)	(180,000)	27,436	(184,049)
Unencumbered cash, beginning of year	<u>-</u>	<u>31,597</u>	<u>180,000</u>	<u>793</u>	<u>212,390</u>
Unencumbered cash, end of year	<u>\$ -</u>	<u>\$ 112</u>	<u>\$ -</u>	<u>\$ 28,229</u>	<u>\$ 28,341</u>

The accompanying notes are an integral  
part of the financial statements.

**SOUTHWEST KANSAS LIBRARY SYSTEM  
DODGE CITY, KANSAS**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2011

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of the significant accounting policies applied in the preparation of the accompanying financial statements is presented to assist the reader in understanding the Southwest Kansas Library System's financial statements, which are presented in conformity with the cash basis and budget laws of the State of Kansas. The financial statements and notes are representations of the System's management, which is responsible for their integrity and objectivity.

**1. Reporting entity**

The Southwest Kansas Library System, Dodge City, Kansas is a municipal corporation established under K.S.A. 75-2547 and 75-2548 as agents for support for local public libraries. The System is governed by a board of individuals who are appointed by local libraries (to represent their districts) and by the Governor (to represent Kansans who reside outside local public library districts). These financial statements present the Southwest Kansas Library System, Dodge City, Kansas.

**2. Fund accounting**

The accounts of the System are organized on the basis of funds. In governmental accounting, a fund is designated as a sum of money or other resources segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations and constituting an independent fiscal and accounting entity. System resources are allocated to and for individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

The following funds comprise the financial activities of the System for the year ended December 31, 2011:

**GOVERNMENTAL FUNDS**

**General Fund**

This fund is used to account for all financial transactions not properly accounted for in another fund. It receives a greater variety and number of taxes and other general revenue than any other funds and finance a wider range of activities.

**Special Revenue Funds**

These funds are established to account for the proceeds of specific revenue sources which must be devoted to some special use as required by law or specific regulation.

## A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3. Basis of Accounting

*Statutory Basis of Accounting.* The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

The System has adopted a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the System to use the statutory basis of accounting.

*Departure from accounting principles generally accepted in the United States of America.* The basis of accounting described above results in a financial statement presentation which shows cash receipts, expenditures, cash and unencumbered cash balances, and expenditures compared to budget. A statement of net assets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance is not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles. Capital assets that account for the land, buildings, and equipment owned by the municipality are not presented in the financial statements. Also, long-term debt such as general obligation bonds, capital leases, temporary notes, and compensated absences is not presented in the financial statements.

### 4. Budgetary information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless exempted by a specific statute), debt service funds, and enterprise funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in adoption of the legal annual operating budget:

- a. Preparation of the budget for the succeeding fiscal year on or before August 1<sup>st</sup>.
- b. Publication in local newspaper on or before August 5<sup>th</sup> of the proposed budget and notice of public hearing on the budget.
- c. Public hearing on or before August 15<sup>th</sup>, but at least ten days after publication of notice of hearing.
- d. Adoption of the final budget on or before August 25<sup>th</sup>.

## A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 4. Budgetary information

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time. There were no amendments to the budget for the year ended December 31, 2011.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the statutory basis of accounting, in which revenues are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year-end.

A legal operating budget is not required the following special revenue funds:

State Aid  
Children Service Grant

Courier Grant  
Blind and Physically Handicapped

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

### 5. Cash and investments

The System pools cash resources of its various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in interest-bearing deposits and disclosed as part of the System's cash balances.

### 6. Ad valorem tax revenue

The determination of assessed valuation and the collection of property taxes for all political subdivisions in the State of Kansas is the responsibility of the various counties. The County Appraiser Office's annually determines assessed valuation and the County Clerk spreads the annual assessment on the tax rolls. Property taxes are levied by November 1 and a lien for all taxes attaches on that same date until the taxes are paid. One-half of the property taxes is due December 20 and distributed to the System by January 20 and the second half is due May 10 and distributed to the System by June 5. The System draws available funds from the County Treasurer Office's at designated times throughout the year.

## A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 7. Pension plan

Substantially all full-time employees are members of the State of Kansas Public Employees' Retirement System (KPERs) which is a cost-sharing multiple-employer state-wide pension plan. The State of Kansas pays the System's share of pension costs; such costs to be funded are determined annually by the system's actuary.

### 8. Compensated absences

System employees who are entitled to vacation leave receive one working day per month based on the average number of hours worked per week, 1-1/4 days after five years, 1-1/2 days after 10 years, 1-3/4 days after 15 years, and 2 days after completing 20 years of service. Vacation leave is accrued each month up to a maximum of 24 working days. Accrued vacation is paid upon termination.

Sick leave is accrued at the rate of one working day per month and may be accrued up to 90 days. Employees leaving employment in good standing will be reimbursed for 1/4 of accrued sick leave.

At December 31, 2011 the System's liability for compensated absences is \$27,531.

### 9. Estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts and the disclosures at the date of the financial statements. Actual results could differ from those estimates.

### 10. Other post employment benefits

As provided by K.S.A. 12-5040, the System allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the System is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in these financial statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the System makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the System under this program.

## B. DEPOSITS AND INVESTMENTS

*Policies.* The System has no formal deposit and investment policies; however it does follow state statutes. K.S.A. 9-1401 establishes the depositories which may be used by the System. The statute requires banks eligible to hold the System's funds to have a main or branch bank in the county in which the System is located, or in an adjoining county if such institution has been designated as an official depository, and the bank provides an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the System's deposits in financial institutions to be entirely covered by federal depository insurance, by a corporate surety bond, or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka.

## B. DEPOSITS AND INVESTMENTS (CONTINUED)

K.S.A. 12-1675 limits the System's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. State statutes place no limit on the amount the System may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

*Custodial credit risk - deposits.* Custodial credit risk is the risk that, in the event of a bank failure, the System's deposits may not be returned to it. At year-end the carrying amount of the System's deposits, including certificates of deposit, was \$489,489. The bank balance was \$491,921, all of which was secured by FDIC coverage.

## C. RISK MANAGEMENT

The System is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; natural disasters; and medical needs of employees. The System purchases commercial insurance to cover health, property, liability, and workers' compensation claims. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in any of the past three years.

## D. DEFINED BENEFIT PENSION PLAN

*Plan description.* The System participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, *et seq.* KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas, Suite 100, Topeka, KS 66603-3869) or by calling 1-888-275-5737.

*Funding Policy.* K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4%-6% of covered salary. Member-employees' contributions are withheld by their employer and paid to KPERS according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve bases. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate established for the calendar year 2011 is 7.74% with a moratorium on the 1% group health and disability insurance from April through June. The rate for those months was 6.74%. The System's employer contributions to KPERS for the year ending December 31, 2011, 2010, and 2009 were \$26,194, \$20,614 and \$17,757, respectively, equal to the required contributions for the year as set forth by the legislature.

## E. SUBSEQUENT EVENT

Management has evaluated subsequent events through December 28, 2012, the date on which the financial statements were available to be used. Management's evaluation concluded that there are no subsequent events that are required to be recognized or disclosed in these financial statements.